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SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1946

No. 560

DIXI-COLA LABORATORIES, INC., CONSTANTINE GRIVAKIS, WILLIAM H. HENNEN, ROY GOBRECHT AND MARBERT PRODUCTS, INC.,
Petitioners and Appellees and Cross-Appellants below.

vs.

THE COCA-COLA COMPANY, A CORPORATION,
Respondent, and Appellant and Cross-Appellee below.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE FOURTH CIRCUIT AND BRIEF IN SUPPORT THEREOF.

To the Honorable Fred M. Vinson, Chief Justice of the United States, and the Associate Justices of the Supreme Court of the United States:

Your Petitioners respectfully show:

Summary Statement of Matter Involved

1. This is a civil action brought by The Coca-Cola Company, in the United States District Court for the District

of Maryland, in May, 1939, to enjoin trade-mark infringement, unfair methods of competition, and for an accounting of profits and a judgment for damages. (O. R.[1])

2. Petitioners, Dixi-Cola Laboratories, Inc., and Marbert Products, Inc., make a flavoring concentrate which they sell to bottling concerns to be made by them into a bottled carbonated drink called "cola". Up to the time of the trial in February, 1940, Petitioner Marbert Products, Inc., also made a cola flavored syrup which it sold to soda fountain dispensers to be mixed by them with carbonated water and delivered to the consumer in a glass. (O. R. 1547)

3. A cola drink is a common kind and class of soft drink having a distinctive taste and appearance. Petitioners' products, Dixi-Cola and Marbert Cola, and Respondent's product Coca-Cola, and many others of like taste and appearance, are all members of this class. Pepsi-Cola, Royal Crown Cola, Lime Cola, Double Cola, and numerous others are well known members of this class.

4. In this suit, The Coca-Cola Company charged that the bottled soft drinks made from Petitioners' flavoring, were being passed off as Coca-Cola; that dishonest fountain dispensers were selling the drink made with Petitioners' flavoring in glasses on calls for Coca-Cola or "coke", and that Petitioners' agents were suggesting and promoting this customer deception. (O. R. 7)

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[1] *O. R.* refers to page numbers in the Record previously filed in this Court by the Coca-Cola Co. in No. 1039, October Term, 1940, later No. 87, October Term, 1941 (314 U. S. 629), following the Interlocutory Decree, in furtherance of its petition for Writ of Certiorari to the Circuit Court of Appeals following the decision of that Court in No. 4672 (117 Fed. (2d) 352).

N. R. refers to page numbers in the new record filed in this Court following accounting and final decree of the District Court upon the cross-petitions of the Coca-Cola Co. and Dixi-Cola Laboratories, Inc., et al., for writs of certiorari to review the decisions of the Circuit Court of Appeals in No. 5431 (155 Fed. (2d) 59).

5. In February, 1940, there was a trial upon the merits and the District Court found in favor of The Coca-Cola Company. It found that Petitioners, through one or more of their representatives, induced and encouraged customers to sell and pass off their product as the product of The Coca-Cola Company (O. R. 1549)

6. To prohibit the continuance of these acts, Petitioners were not only enjoined from committing them but the District Court further found that the use of the terms Marbert Cola and Dixi-Cola were infringements of the name Coca-Cola. The District Court further found that The Coca-Cola Company was entitled to have Petitioners permanently enjoined from employing for their product the same color as that of Coca-Cola (dark brown color of the drink), if Petitioners distribute or permit their product to be distributed, or sold, to the consumer other than in bottles. (O. R. 1549). The decree further enjoined Petitioners:

> "From giving to any part of their merchandise not sold by Defendants, their agents or distributors, in bottles to consumers, a color imitating or resembling the color of Plaintiff's product, if or when Defendants know, or in the exercise of reasonable care should know, that the purchaser thereof intends to dispense such merchandise to the consumer other than in bottles, * * * ". (O. R. 1554)

7. Petitioners appealed from this decree to the Circuit Court of Appeals for the Fourth Circuit urging that they have the right to continue making the cola kind of drink, which includes the characteristic color of all cola drinks, and to have these drinks lawfully sold by the glass at soda fountains, and they protested that the decision was in conflict with the decision of this Court in *Warner* v. *Lilly,* 265 U. S. 526; that, consistent with the holding of that case, the use of the color, disassociated from the fraud is entirely

lawful and that it is against the fraud only that the injunction lies; that no finding of fraud can abridge the constitutional right to engage in a lawful business; that the right to which The Coca-Cola Company is entitled is of being protected against unfair competition, not of having the aid of a decree to create or support, or assist in creating or supporting a monopoly of the sale of a product which everyone, including Petitioners, is free to make and vend. The Circuit Court of Appeals rejected these contentions and affirmed this provision of the decree except insofar as it adjudicated an infringement by the use of the names Dixi-Cola and Marbert Cola. (O. R. 2159-2175)

8. To comply with this decree, Petitioners perforce withdrew from the soda fountain trade altogether. (N. R. 112). The effect of the decree is to forbid them to compete with The Coca-Cola Company at soda fountains and other outlets, in the lawful sale of a genuine cola drink containing the characteristic cola color.

9. Upon remand, there was a reference to a Special Master for an accounting. The Special Master found that Petitioners had not during the several years intervening since the decree, engaged in any customer deception nor had conspired with others in any unfair competitive practice; that on the contrary, Petitioners had endeavored to stamp out all passing off of any drink made with their cola concentrates. (N. R. 130-133)

10. The testimony before the Special Master did reveal that some of Petitioners' bottler customers, with Petitioners' knowledge, were selling their bottled cola product containing Petitioners' flavoring concentrate to bars and taverns and that bartenders were mixing it with rum and whiskey and selling it in glasses to the drinker. (N. R. 132). This, said The Coca-Cola Company, is a violation of the

decree and subjects Petitioners to an accounting of profits for all such sales. (N. R. 155)

11. The Special Master found that the mere sale of cola drinks, colored and made to taste like Coca-Cola, in mixed drinks at bars and taverns does not constitute unfair competition, (N. R. 132) although such sales, if made within the knowledge of Petitioners, might be a violation of the decree. (N. R. 131). As to this the Special Master expressed no opinion.

12. The Special Master did, however, impose liability upon Petitioners for profits realized by them on certain sales of their flavoring concentrate to seven specified bottlers who sold to bars and taverns which, in turn, sold mixed whiskey, rum and cola drinks on calls for those liquors and Coca-Cola, (or "Coke"), upon the ground that, under the evidence, Petitioners knew or should have known that these particular bars and taverns would engage in such substitution, and were under the legal duty to exact reasonable assurances from such bars and taverns that such substitutions would not be made (which assurances Petitioners had indeed endeavored to obtain), or to cease sales of flavoring concentrate to the bottlers supplying them, and that the assurances exacted by Petitioners in these instances did not satisfy the requirements. (N. R. 133)

13. The Special Master applied this harsh rule of ultimate liability for the dishonest sales of remote tradesmen with whom Petitioners were not in privity, regardless of whether Petitioners or the bottlers, who made the cola drinks and vended them to such tradesmen, were or were not, in the circumstances, liable to Respondent under the laws of the several states where these acts took place, and heedless of the decision of this Court in *Erie R. R. Co.* v. *Tompkins*, 304 U. S. 64.

14. Before the Master, and later before the District Court on objections to the Special Master's Final Report, and upon Respondent's motion for leave to file a supplemental bill and motion for a citation for contempt, The Coca-Cola Company maintained that the mere sale, within Petitioners' knowledge or notice, of mixed alcoholic drinks in glasses containing a cola made by independent bottlers with Petitioners' cola colored flavoring concentrate constitutes unfair competition, violates the injunction, and makes Petitioners liable to account to it for all profits realized indirectly by them from such sales (N. R. 155-159).

15. The District Court rejected these contentions of The Coca-Cola Company and announced that it had never been its intention, even in entering the original decree, to unqualifiedly debar the sale of Petitioners' product, containing the cola color, in glasses, but only to prohibit such sales in cases where Petitioners know, or should know, that they will be made *on calls for Coca-Cola.* Thereupon, the District Court entered a final decree in conformity with this interpretation and also issued a supplemental opinion making plain this construction of the original injunction decree (N. R. 173).

16. Both Petitioners and Respondent appealed to the Circuit Court of Appeals for the Fourth Circuit. Again Petitioners attacked the color injunction as violating their rights under the Fourteenth Amendment of the Constitution of the United States and as conflicting with the decision of this Court in *Warner* v. *Lilly, supra.* On this appeal and upon a rehearing the Appellate Court again rejected Petitioners' contentions and, nullifying what the District Court had done, ordered the enforcement of the color injunction in all its severity (N. R. 436-437-454). The Court, in effect, reiterated that although the color of a cola drink is charac-

teristic of that kind and class of drink and, therefore, functional (N. R. 435), Petitioners were by the original unchanged decree lawfully denied the use of that color in the manufacture and sale of that drink in glasses at fountains, bars and taverns because of past acts of customer deception, and that while all other manufacturers are free to make and vend an exactly similar drink at fountains and bars, Petitioners are not, except by the entire bottle.

17. Further, the Appellate Court, while acknowledging the rule of *Erie R. R. Co.* v. *Tompkins, supra* (N. R. 439), did not apply that rule and subjected Petitioners to liability for acts committed in states without regard to whether Petitioners were or were not liable under the laws of such states. This is especially true as respects sales made in the State of Pennsylvania where its laws exempt Petitioners from the liability imposed on account of such acts. *Quaker City Ice Cream Co.* v. *Philadelphia Dairy Products Co.*, 306 Pa. 164, 159 A. 3.

18. Thus, in important markets, Petitioners have been denied the right to lawfully make and to lawfully sell a common article of trade even though it be in fair competition with The Coca-Cola Company.

Jurisdictional Statement

The jurisdiction of this Court is invoked under Section 240 of the Judicial Code, as amended by Act of Congress of February 13, 1925, 43 Stat. 938; U. S. C. A. Tit. 28, Sec. 347 (a).

Questions Presented

1. May a person be denied the right to engage in a common business, innocent in itself, because in the past he has unfairly competed with another in that business? Specif-

ically, may these defendants, because of a finding of fraud some years back, and despite a finding of *bona fides* in the conduct of their business subsequently, be deprived of the right that other cola manufacturers have to use a characteristic color common to the drink, in situations in which the public receives the drink other than in bottled form?

2. May a person be required to account to another for profits realized from a common business, innocent in itself, in the absence of any act of unfair competition? Specifically, can a manufacturer, upon pain of absolute liability for damages, be placed in the position of a guarantor that its flavoring compound, when sold in a reprocessed form by a person with whom the manufacturer is not in privity, shall be delivered to ultimate consumers only in bottles?

3. May a person, in the absence of the violation of Federal law, be required to account in Federal Court for profits received from the conduct of a busines for which, under the law of the State where it is conducted, there is no liability to account? Specifically, where the law of a state exempts a manufacturer from responsibility for the acts of a dishonest tradesman in substituting the manufacturer's product on a call for another product, in the absence of a conspiracy or simulation of packaging, should these defendants be made to account for a tradesman's act in such state, in the absence of proof of any wrongdoing on the part of the manufacturer?

Reasons Relied On for the Allowance of the Writ

1. The decision below violates Petitioners' rights under the Fourteenth Amendment to the Constitution of the United States because it prohibits their engaging in a common business, innocent in itself, in which all others may,

and many now do, freely and lawfully engage, deprives them of their property, without due process of law, and denies to them the equal protection of the law.

2. The decision below is of a Federal question and is in a way conflicting with the applicable decision of this court in *Warner* v. *Lilly*, 265 U. S. 526.

3. The decision below is in conflict with the decisions of other Circuit Courts of Appeals in the following cases: *Coca-Cola Co.* v. *Gayola Company*, (C. C. A. 6th) 211 Fed. 942; *Turner* v. *Seymour Mfg. Co.* v. *A. & J. Mfg. Co.* (C. C. A. 2nd), 20 Fed. (2d) 298. The conflict arises in this manner: These decisions are that the use of color in connection with an article of trade may be enjoined only when such color is "non-functional" and serves merely the incidental use of identifying the source of the goods with which it is used. In the decision below it is held that the color of a cola drink is both functional and characteristic of the cola kind and class of drink and not merely distinctive of Respondent's drink, yet the issuance of a color injunction is upheld. The whole reason for the imposition of the color injunction is encompassed in these words of the Court's first opinion:

> "* * * the copying of the color of the drink may be enjoined when the act is a part of a scheme of unfair competition."

4. The decision below conflicts with the decision of this Court in *Erie R. R. Co.* v. *Tompkins*, 304 U. S. 64, in that it subjects Petitioners to liability for acts committed in several states under the laws of which States they are exempted from liability.

Whereas your Petitioners respectfully pray that a Writ of Certiorari be issued out of and under the seal of this

Honorable Court directed to the United States Circuit Court of Appeals for the Fourth Circuit, commanding that Court to certify and to send to this Court for its review and determination, on a day certain to be therein named, a transcript of the record and proceedings herein and that the decree of the United States Circuit Court of Appeals for the Fourth Circuit be reversed by this Honorable Court and your Petitioners have such other and further relief in the premises as to this Honorable Court may seem meet and just.

W. HAMILTON WHITEFORD,
Attorney for Petitioners.

BRIEF IN SUPPORT OF PETITION FOR CERTIORARI

Opinions of Courts Below

The opinion of the District Court of the United States for the District of Maryland was rendered February 21, 1940, 31 Fed. Supp. 735.

The opinion of the Circuit Court of Appeals for the Fourth Circuit on first appeal was rendered January 11, 1941, 117 F. (2d) 352; on the second appeal on February 4, 1946, 155 F. (2d) 59; and on reargument May 3, 1946, 155 F. (2d) 59. The time for the filing of this petition was extended by Chief Justice Vinson until October 2, 1946 (R. 463).

Jurisdiction

The jurisdiction of the Court to grant this application appears on page 7 of the petition.

Statement of the Case

Only those facts bearing upon the questions presented have been stated. They appear on pages 1 to 7 of the preceding petition and are adopted and made a part of this brief.

Specification of Errors

(1) The Court erred in holding that Petitioners may be enjoined from coloring their cola product the characteristic cola color when they know or should know that it will be sold to the consumer in glasses at soda fountains or will be sold by the glass in mixed alcoholic drinks in bars and taverns.

(2) The Court erred in holding that Petitioners must account to Respondent for all profits derived by them as an indirect result of the sale of their cola flavoring concentrate in mixed drinks at bars and taverns where there is no

wrongful substitution, passing off, or customer deception of any kind.

(3) The Court erred in holding that, no Federal question being involved, Petitioners must account to Respondent for profits derived by them on account of acts committed by them in States under the laws of which there is no liability to so account.

Summary of Argument

Point A

The decision below is in conflict with the decision of this Court in *Warner* v. *Lilly,* 265 U. S. 526. In that case this Court held that a manufacturer guilty of competing unfairly could not be enjoined from coloring a liquid quinine medicine with chocolate to prevent its being passed off by druggists for an exactly similar preparation made by a competitor upon the ground that the legal wrong did not consist in the mere use of chocolate as an ingredient but in the unfair and fraudulent advantage which had been taken of such use to pass off the product; that the use disassociated from the fraud was entirely lawful and that it was against fraud only that the injunction lay. In the case at bar, the Court has enjoined the use of the coloring ingredient (caramel) in direct contravention of the holding of this Court. Moreover, in the case at bar the characteristic color of a cola drink has been held to be functional and the use of a functional property of an article of trade cannot be enjoined for no particular manufacturer can assert an exclusive right in the form in which the public has become accustomed to seeing an article. Furthermore, the characteristic color of a cola drink identifies the class of drink to which it belongs and does not merely signify the product of the plaintiff. It is only when an imitated feature of an article of trade is both non-functional and significant of the goods of one

trader only that its use by competitors may be restrained. The characteristic color of a cola drink being functional, inasmuch as it identifies the class of drink to which it belongs, is an element of consumers' value and cannot be subtracted without affecting those features which control the buyers' choice; a decree depriving Petitioners of its use would aid in creating or supporting a monopoly of the product.

Point B

The sale of cola drinks having the characteristic cola color in glasses at soda fountains, and in mixed drinks at bars and taverns, is a common business, innocent in itself, in which Respondent and many others may and now do freely engage. To deprive Petitioners of the right to manufacture and to sell this common product containing its characteristic color on terms of equality with other manufacturers of the drink is to inflict upon them a species of civil death and to deprive them of their rights under the Fourteenth Amendment of the Constitution of the United States in that it abridges their privilege of engaging in a common vocation of life, violates their rights to liberty and the equal protection of the law, and moreover it deprives them of their property without due process of law.

Point C

The decision below is in conflict with the decision of the Circuit Court of Appeals for the Sixth Circuit in *Coca-Cola Co.* v. *Gay-Ola Co.*, 211 Fed. 942, and with the decision of the Circuit Court of Appeals for the Second Circuit in *Turner & Seymour Mfg. Co.* v. *A. & J. Mfg. Co.*, 20 F. (2d) 298, in that those cases decide that the use of a functional property of a common article of trade cannot be deprived a trader upon the ground that he has made a fraudulent use of the goods in competition with another manufacturer. The de-

cision below is that the characteristic color of a cola drink is functional, nevertheless its use is enjoined squarely conflicting with these decisions and with the law generally obtaining.

Point D

The acts for which Petitioners have been subjected to liability were committed within the jurisdictions of several states of the United States, and in the decisions below the laws of those states were not ascertained and applied in determining Petitioners liability, but were ignored, which is in conflict with the decision of this Court in *Erie R. R. Co.* v. *Tompkins,* 304 U. S. 64. An example is that Petitioners were subjected to liability for acts committed in the State of Pennsylvania under the laws of which state Petitioners are unquestionably exempted from liability on account of those acts. *Philadelphia Dairy Products* v. *Quaker City Ice Cream Co.,* 306 Pa. 164, 159 Atl. 3, 84 A. L. R. 466. In the decision below the Court recognizes the authority of *Erie* v. *Tompkins,* but does not apply the rule of that case.

ARGUMENT

Point A

I. The Decision Below Conflicts With the Prior Decision of This Court in a Case Involving the Manufacture and Sale of an Unpatented Product.

The decision below is in conflict with the decision of this Court in *Warner* v. *Lilly,* 265 U. S. 526. The product in that case was a liquid preparation of quinine colored and flavored with cocoa. In the case at bar, the product is an extremely common soft drink called "cola". It is a composition of flavors with the dark brown color produced by beverage caramel or burnt sugar. In *Warner* v. *Lilly,* the defendant

had produced a medicine which was for all practical purposes identical with that of the plaintiff.

In the case at bar Petitioners' flavoring concentrate produces a characteristic cola drink, similar to all other cola drinks including that manufactured by Respondent. In *Warner* v. *Lilly* the defendant, through its salesmen, suggested to druggists that its medicine could be palmed off on unsuspecting purchasers as the medicine of the plaintiff with profit to the druggists. In the case at bar, the Court found that Petitioners' agents, in the early stages of Petitioners' business, had suggested to soda fountain dealers that the cola drink made with their concentrate and syrup could be passed off on calls for "Coca-Cola".

In *Warner* v. *Lilly* the wronged trader instituted suit in a Federal District Court[2] to enjoin the continuance of its competitor's fraudulent acts and prayed an injunction restraining the defendant's use of chocolate as a coloring medium so as to make passing off impossible. The District Court denied the validity of plaintiff's prayer saying: (p. 158)

> "The effect of issuing an injunction would be to grant the plaintiff a monopoly, perpetual in effect, * * *."

The petition was dismissed and the plaintiff appealed to the Circuit Court of Appeals for the Third Circuit.[3] There the decision below was reversed, the Court directing that an injunction issue prohibiting the defendant's use of chocolate as a coloring agent (p. 757). In justification of this the Court said:

> "* * * * we are deciding this case on conduct rather than on chocolate, we think the defendant has

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[2] *Eli Lilly & Co.* v. *Wm. R. Warner & Co.* (D. C. E. D. Pa. 1920), 268 Fed. 156.

[3] *Eli Lilly & Co.* v. *Wm. R. Warner & Co.* (C. C. A. 3rd, 1922), 275 Fed. 752.

forfeited its right to use of chocolate as a coloring agent because of its misuse; namely, the double fraud upon the public and on competing producer. That the defendant may no longer derive advantage from its own fraud by resort to an ingredient the use of which otherwise is lawful, we direct the Court below to award an injunction restraining it thereafter from using chocolate as a coloring matter in its preparation named 'Quin-Coco'. The only practical use of protecting the public and the plaintiff from a continuance of its unfair practices is to deprive the defendant of the ingredient by which alone it made those practices effective."

This is precisely the reason advanced by the Respondent in this case for depriving Petitioners of their right to the use of caramel in the preparation of their cola concentrate and it is precisely the ground upon which the Court below rested its decision. It said:

> "* * * it also has been held that the copying of the color of the drink may be enjoined when the act is a part of a scheme of unfair competition * * *."
>
> "The decree of the District Court will, therefore, be affirmed * * *."

On second appeal the Court below thus amplifies this holding (p. 66):

> "In our view, the right of the court to restrict the use of color in the beverage depends upon the presence of the element of fraud. It cannot be said that manufacturers of cola drinks are prohibited from the use of the characteristic color in the absence of fraudulent conduct on their part; but if a manufacturer has been found guilty of taking advantage of the similarity in taste and color, and has engaged in acts of unfair competition by encouraging the substitution of its product for that of another, the court is justified in enjoining the imitation unless means are adopted to

prevent deception, such as the provision in this case that the beverage be dispensed to the consumer in bottles which will indicate its origin."

This decision is squarely opposed to the decision of this Court in *Warner* v. *Lilly*. In reversing the decision below in that case this Court said:

> "* * * the right to which respondent is entitled is that of being protected against unfair competition, not of having the aid of a decree to create or support, or assist in creating or supporting, a monopoly of the sale of a preparation which everyone, including petitioner, is free to make and vend. The legal wrong does not consist in the mere use of chocolate as an ingredient, but in the unfair and fraudulent advantage which is taken of such use to pass off the product as that of respondent. The use disassociated from the fraud is entirely lawful, and it is against the fraud that the injunction lies. * * * The Circuit Court of Appeals held that petitioner should be unconditionally enjoined from the use of chocolate. We think this goes too far; * * *".

There is no possible differentiation on principle between the decision of this Court in *Warner* v. *Lilly* and the decision below. It is believed that it would be difficult to find two factual situations so nearly alike requiring the application of like principles of law. Yet the court below sidestepped the decision of this court. Of *Warner* v. *Lilly* it said: (p. 66)

> "Under some circumstances, less drastic provision may be sufficient, as was found to be the case in *Warner & Co.* v. *Lilly & Co.*, 265 U. S. 526, where the use of chocolate color in connection with a quinine preparation was not enjoined notwithstanding acts of unfair competition, because the court found that deception might be avoided by the use of labels clearly distinguishing the competing products. In the pending case,

however, the District Court by its interlocutory decree found that the defendants were guilty of deliberate fraud and considered that the color injunction was necessary to safeguard the plaintiff's rights, and this holding was affirmed by this court on appeal. We find no occasion to depart from that ruling now."

The decision of *Warner* v. *Lilly* did not proceed upon the principle announced by the Court below. This Court did not reverse the Court of Appeals for the Third Circuit in that case because it found that the deception might be avoided by the use of labels, but because this Court found the decision contrary to the principle that the use of the coloring ingredient disassociated from the fraud was entirely lawful and that *"it is against the fraud that the injunction lies."*[4] In *Warner* v. *Lilly* the colored liquid quinine medicine was sold in bulk to the druggist and transferred by him to other bottles, labelled or mislabelled, and vended the purchaser." Said this Court: (p. 530)

> "* * * sales to the ultimate purchasers are of the product in its naked form out of the bottle."

The extent of the remedy to which this Court found the plaintiff entitled in that case was that: (p. 532)

> "* * * the decree fairly may require that the original packages sold to druggist shall * * * state affirmatively that the preparation is not to be sold or dispensed as Coca-Quinine orders calling for the latter."

Thus the decision of this Court in that case did not interfere with the necessary or usual mode of marketing the goods and the case at bar cannot be distinguished from the decision of this Court in *Warner* v. *Lilly* as the Court below has attempted.

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[4] Emphasis supplied.

II. The Color of Cola Drink Is Functional, Is Not Distinctive of the Goods of Any One Producer, and Its Use Cannot Be Prohibited so as to Distinguish the Product of One Manufacturer from That of Another.

It should be pointed out that the basis of the holding in *Warner* v. *Lilly* is not that the chocolate used for color and taste had any functional value, although this Court noticed that the chocolate was used not alone for the purpose of imparting a distinctive color, but also for making the preparation peculiarly agreeable to the palate. The decision of that case was bottomed on the proposition that the only right to which respondent was entitled was of being protected against unfair competition and of nothing more; that the legal wrong did not consist in the mere use of chocolate, but in the unfair advantage which had been taken of its use. The functionality or non-functionality of the chocolate could have no bearing upon the principle that its use disassociated from the fraud was entirely lawful and that it was against the fraud *only* that the injunction law.

The extent to which the Court below misinterpreted the holding of this court in *Warner* v. *Lilly* is evident in that in the above quoted portion of its opinion it associates *taste* and color, apparently making no distinction between them and concludes that the presence of the element of fraud justices an injunction against *imitation*. There can be no question that taste is functional. It is believed that there will be found no cases which sustained an injunction against the use of a functional property of an article in any circumstance.

But the characteristic color of a cola drink *is* functional. It serves a necessary and desirable office in merely identifying the drink as a member of the cola kind and class. The

term "functional" is not to be treated as synonymous with "utilitarian."[5] The distinctive color of a popular beverage is bound to be an element of consumers' value, free to every competitive producer.[6] It has been specifically held that the artificial color of a soft drink is functional[7] and courts have refused to enjoin the color blue for kitchen utensils[8] and for razor blades.[9] It has been held in Coca-Cola cases that the cola color is purely functional. Thus a Federal District Court in New York declared:[10]

> "The use of caramel or color by this defendant is now purely functional. There is testimony as to about fifty beverages of similar color from root beer to ginger ale. The use of caramel as such a color has been widely known and used for years, long before the plaintiff's product came on the market."

In 1944, the Supreme Court of Delaware held:[11]

> "The two beverages, 'Coca-Cola' and 'Royal Crown Cola', are dark brown in color, the characteristic color

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[5] "The determination of whether or not such features are functional depends upon the question of fact, whether prohibition or imitation by others will deprive the others of something which will substantially hinder them in competition."

Restatement of the Law of Torts, Sec. 742.

[6] *J. C. Penny Co.* v. *H. D. Lee Mercantile Co.* (C. C. A. 8th, 1941), 120 F. (2d) 949. To like effect see *Ainsworth* v. *Gill Glass, etc.* (D. C. Pa. (1938), 26 F. Supp. 183). See also *Champion Spark Plug Co.* v. *R. Mosler Co.*, 233 Fed. 112. An opinion by Judge Learned Hand to the effect that a feature of an article is non-functional when it can "be subtracted from the article without affecting those features which controlled the buyers' choice".

[7] *Green* v. *Ludford Fruit Products* (D. C. S. C. Cal., 1941, 39 Fed. Sup. 985).

[8] *Turner & Seymour Mfg. Co.* v. *A. & J. Mfg. Co.* (1927, C. C. A. (2d), 20 Fed. (2d) 298.

[9] *Gillette Safety Razor Co.* v. *Triangle Mechanical Laboratories Corp.* (D. C. N. Y.), 4 Fed. Supp. 319.

[10] *Coca-Cola Co.* v. *Hy-Po Co., et al.* (D. C. E. D. N. Y. 1932), 1 F. Supp. 644.

[11] *Coca-Cola Co.* v. *Nehi Corp.* (Del. 1944), 36 Atl. 2nd, 156.

of cola beverages, and the two products are quite similar in aroma and taste."

* * * * * * *

"* * * in this day the existence of a type of soft drink having a distinctive aroma, taste and color, and known as a cola beverage, is as well recognized as is the fact that there is ginger ale or root beer. Notoriety is the essence of judicial notice; and we see no reason why the Court should pretend ignorance of that with which the general public is familiar."

* * * * * * *

"It is doubtful whether a cola beverage of a different color could be successfully marketed; and, at least, it can be said that the defendants, in giving to its product the almost universally adopted color, has caused no unnecessary confusion in the trade or among the consuming public."

On first appeal, the Court below said:

"* * * today the phrase 'cola drinks' indicates to the general public beverages which in taste *and appearance* resemble Coca-Cola." [12]

In the opinion below on second appeal, the Court said:

"It cannot be said that manufacturers of cola drinks are prohibited from the use of *the characteristic color* * * *".[13]

The color of a cola drink which is characteristic of the class of drink to which it belongs cannot have any special significance identifying Respondent's product. Thus two facts appear without controversy:

(1) The dark brown color of the cola drink is characteristic of the cola class of drink; and

(2) The cola color does not signify the particular manufacture of the Respondent.

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[12] 117 Fed (2d) 258 (Emphasis supplied).

[13] 155 Fed. (2d) 59 (Emphasis supplied).

There exists then no basis for denying any trader the right to conform to this feature of the cola product.[14] The characteristic color of the cola kind and class of drink is an integral part of the good will which attaches to it, and that good will cannot be enjoyed unless the product is uttered in the form in which the public has become accustomed to seeing it. In *Kellog Co.* v. *National Biscuit Co.*, 305 U.S. 111, this court said:

> "Where an article may be manufactured by all, a particular manufacturer can no more assert exclusive rights in a form in which the public has become accustomed to see the article, and which in the mind of the public, is primarily associated with the article rather than a particular producer, than it can in the case of a name with similar connections in the public mind."

It is a matter of common knowledge, as well as a fact borne out by the uncontradicted testimony in this case, that the sale of the unbottled cola product in glasses at soda fountains and in mixed drinks at bars and taverns is a large and important trade. The decision of the court below denies this trade to Petitioners for it restricts them to a sale to the ultimate consumer in a bottle. Under the terms of the decree as it now stands there can be no sale by the glass either at soda fountains or in mixed drinks at bars and taverns. The Court has in effect specifically excluded Petitioners from these markets and insofar as Petitioners are concerned has conferred a monopoly of this trade upon the

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[14] An imitation is unprivileged when "the copies or imitated feature has acquired generally in the market a special significance identifying the other goods and the copies or imitated feature is non-functional". *Restatement of the Law of Torts,* Sec. 741.

"A feature of goods is functional under the rule stated in Section 741, if it affects their purpose, action or performance * * *." *Restatement of the Law of Torts,* Sec. 742.

Respondent. Under the decision of this Court in *Warner* v. *Lilly* this is not permissible.[15]

Point B

The sale of cola drinks by the glass in soda fountains and in mixed drinks in bars and taverns is a large business in which very many manufacturers now freely engage. It is a common occupation, innocent in itself.

The effect of the color injunction is to exclude Petitioners from this field of competition not only with Respondent, but with all others as well. The court below has so construed the color injunction that it, in effect, constitutes Petitioners insurers that cola drinks manfactured from their flavoring concentrate shall be delivered to the ultimate consumer in a bottle rather than in a glass. Manifestly cola drinks vended by the glass cannot be vended by the bottle, and thus Petitioners have been shut out of two important outlets for the sale of the cola product.

Far from exercising its jurisdiction to exclude Petitioners from engaging in compentition with Respondent in any legitimate market, the Court below should have been alert to guarantee Petitioners' right to fairly compete in

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[15] To like effect also: *Turner & Seymour Mfg. Co.* v. *A. & J. Mfg. Co.* (C. C. A. 2nd 1927), 20 Fed. (2d) 298:

"The use of blue by both plaintiff and defendants, which color is common to the trade on kitchen utensils, and for which the plaintiff has no exclusive right will not be protected by injunction so as to afford it a monopoly" (p. 301).

See also opinion of Mr. Justice Holmes in *Schlitz Brewing Co.* v. *Houston Ice & Brewing Co.*, 250 U. S. 28, wherein it is said:

"Both parties sell beer in brown bottles with brown labels and the plaintiff conceded below and still with some unwillingness seems to concede that, although perhaps it first introduced them in this connection and this place, it cannot claim the brown bottle, the brown label, or the two combined. These could be used *without a warning*, such as sometimes is required, that the beer was not the plaintiff's." (Emphasis supplied.)

that market not only with Respondent but with all others. As this Court said in *Yick Wo* v. *Hopkins*, 118 U. S. 356:

> "No duty rests more imperatively upon the courts than the enforcement of those constitutional provisions intended to secure that equality of rights which is the foundation of free government."

And in *Cotting* v. *Kansas City Stock Yard Co.*, 183 U. S. 79, it is observed:

> "* * * equal protection is denied when upon one of two parties engaged in the same kind of business and under the same conditions burdens are cast which are not cast upon the other."

And in *Barbier* v. *Connally*, 113 U. S. 27:

> "* * * security should be given to all under like circumstances in the enjoyment of their personal and civil rights; that all persons should be equally entitled to pursue their happiness and acquire and enjoy property; * * * that no impediment should be interposed to the pursuits of anyone except as applied to the same pursuits by others under like circumstances; that no greater burdens should be laid upon one than are laid upon others in the same calling and condition * * *."

And in *Terrace* v. *Thompson*, 263 U. S. 197:

> "* * * the right to work for a living in common occupations of the community is a part of the freedom which is was the purpose of the Fourteenth Amendment to secure."

And in *Truax* v. *Raich*, 239 U. S. 33:

> "* * * the right to work for a living in the common occupations of the community is of the very essence of the personal freedom and opportunity that it was the purpose of the Amendment to secure."

It is disheartening that an American Court, founded upon the bedrock of constitutional guaranties of freedom and equality of opportunity could have by judicial ukase pronounced sentence of commercial death upon one competitor for having in the past engaged in unfair competition with another. The court below has in effect said to Petitioners: "You shall no longer engage in the sale of a cola drink to soda fountain proprietors and to bottlers who sell to bars and taverns. That field of opportunity is closed to you; so far as you are concerned others shall be given the exclusive right to all the trade that emanates from these sources." Plainly and simply this is the effect of the color injunction. Petitioners have been denied the right to engage in this trade because in the past they have been found guilty of fraud. Admittedly, the color injunction could not be imposed in the absence of fraud, but the fraud existed in the past, it does not now exist and cannot be made to exist unless there can be a judgment today of fraud tomorrow. The Court below has deprived Petitioners of a legal right to prevent the possible performance of an illegal act. They have been disqualified from engaging in a common occupation; there has been inflicted upon them a species of civil death; they have been denied a constitutional privilege which attaches to their presence in the United States. The result of this restriction becomes startling when it is borne in mind that in addition to the parties to this litigation, one hundred thirty-six extract concerns in the United States manufacture a cola flavor concentrate. (N. R. 214) The petitioners are not only in competition with Respondent, but many others, yet the opinion below would create the impression that the public recognized the Respondent alone as having the exclusive right to the characteristic color where the drink is sold in soda fountains and bars and taverns. As was said by

the Court in *Shredded Wheat* v. *Humphrey Cornell Co.*, 250 Fed. 2d, 960:

> "Under the guise of protecting against unfair competition, courts should be zealous not to create perpetual monopoly."

Point C

The decision below is in conflict with the decision of the Circuit Court of Appeals for the Sixth Circuit in *Coca-Cola Company* v. *Gay-Ola Company,* 200 Fed. 720, 211 Fed. 942, and with the decision of the Circuit Court of Appeals for the Second Circuit in *Turner & Seymour Mfg. Co.* v. *A. & J. Mfg. Co.*, 20 Fed. (2d) 298.

The decision of the *Gay-Ola* case is based upon these propositions:

(1) The record justifies the conclusion that the color is "non-functional" to use the phraseology of the patent law.[16]

(2) The color serves to identify plaintiff's product. Defendant's syrup carried "what on the record must be called the guilty color"[17]

Color injunctions in Coca-Cola cases stem from the *Gay-Ola* case decided in 1912 upon the principle that one who unnecessarily imitates a non-functional property of an article which merely serves to identify another's manufacture, may be prohibited from imitating that feature. It is clear that the Court in the *Gay-Ola* case fully recognized the proposition that the imitation of a functional charac-

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[16] 200 Fed. p. 720.

[17] 211 Fed. 942.

teristic cannot be prohibited.[18] The Court said with respect to the facts of that case:

> "This case is not even one of imitating matters of appearance in an article of common manufacture, like furniture."[19]

In order to be the subject of interdiction the simulated feature must cause the article itself to "tell the lie." As was said by the New Jersey Court in *Hill Bread Company* v. *Goodrich Baking Company,* 89 Atl. 863:

> "The falsehood must be told by the article itself in order to make the law of unfair competition applicable."

And also in *American Fork & Hoe Company* v. *Stampit Corp.* (C. C. A. 6, 1942) 125 Fed. (2d) 472:

> "It is an absolute condition to any relief whatever that the plaintiff in such cases show that the appearance of his wares has come in fact to mean that some particular person makes them, and that the public cares who does make them, and not merely for their appearance and structure."

The finding of non-functionality in the *Gay-Ola* case is explicit. This Court and the Court of Appeals for the Second Circuit have construed the holding of that case as proceeding also upon the ground that the color was distinctive merely of plaintiff's product. Thus in *Warner* v. *Lilly,* this Court, adverting to the *Gay-Ola* case said:

> "It does not merely serve the incidental use of identifying the respondent's preparation (*Coca-Cola Com-*

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[18] Citing its own case: *Rathbone Company* v. *Champion* (C. C. A. 6), 189 Fed. 26.

[19] Citing *Globe Wernicke Co.* v. *Macey Co.,* 119 Fed. 696. As a matter of fact the cola color of cola drinks was indeed functional thirty-four years ago and even in that case the imitation of the color of the drink was an imitation of a matter of appearance in an article of common manufacture.

pany v. *Gay-Ola Company,* supra, p. 724 (119 C. C. A.) 164), and it is doubtful whether it should be called a non-essential." (p. 531)

In *Turner & Seymour Mfg. Co.* v. *A. & J. Mfg. Co.,*[20] the Court said:

"Ordinarily, colors of themselves cannot be appropriated as trade-marks * * *. But color which is non-functional and distinctive in a drink, as in *Coca-Cola Co.* v. *Gay-Ola Co.* (C. C. A.) 200 Fed. 720, or whiskey as in *Walker* v. *Grubman* (D. C.) 222 Fed. 478 may not be copied in violation of an established mark and has been held to be in fraudulent competition." (p. 301).

Further in the decision of that case it is said:

"The use of blue by both plaintiff and defendants, which color is common to the trade on kitchen utensils, and for which the plaintiff has no exclusive right will not be protected by injunction so as to afford it a monopoly." (p. 301).

Thus it is easily demonstrated that the decision below conflicts with these decisions of the Sixth and Second Circuits as well as with the law generally obtaining.

In justifying the color injunction, the Court below cites three authorities: The *Gay-Ola,* the *Hy-Po,*[21] and the *Warner* v. *Lilly* cases. But neither the decision in the *Gay-Ola* nor in the *Warner* v. *Lilly* case supports the decision below. In the *Hy-Po* case a color injunction issued, but in the decision of that case it was specifically declared that the color of a cola drink "is now purely functional" (ante page 648).

The decisions in the case at bar and in the *Hy-Po* case stand alone. They both conflict with the decision in the *Gay-Ola* case upon which they purport to be founded.

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[20] 20 Fed. (2d) 298.

[21] *Coca-Cola Co.* v. *Hy-Po Co.* (D. C. N. Y. 1932), 1 F. Supp. 644.

Point D

In the opinion on second appeal there is the following:

"The master found liability in the case of only seven bottlers and estimated aggregate profits in the sum of $617.92. *There was no evidence that the defendants induced or encouraged any of the seventeen bottlers to recommend to their tavern customers that the defendants' product be substituted for the plaintiff's, or that any of the seventeen bottlers encouraged or induced their tavern customers to do so,*[22] although many of them either knew or suspected that defendants' product was being served in mixed drinks in taverns on calls for rum coke." (p. 65).

"* * * the defendants contend that it was error for the master to allow the plaintiff the sum of $617.92 for the profits derived by the defendants from the sale of their goods to the seven bottlers above described. The master held the defendants could not escape liability for this sum *even though their agents sought to eradicate the evil practices of the tavern keepers* unless the defendants received such assurance that their product would be sold properly as an honest man would reasonably require; and he held that the defendants were guilty of unfair competition because they sold their product to bottlers who, to the knowledge of the defendants, resold the same to the tavern keepers who intended to palm off the product for the goods of the plaintiff."

"The defendants say that the rule laid down by the master is applicable only to situations where a manufacturer prepares his goods deceitfully, as by simulating the packages or labels of his competitor, so that the purchaser is misled; but that when the manufacturer properly distinguishes his goods from others, he is not liable for the tricky conduct of dealers remote from him which he does not aid or encourage and of which he has no knowledge." (p. 66).

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[22] Emphasis supplied.

No Federal question is involved here, but only the alleged commission of a tort; therefore, the laws of the states where the tort is alleged to have been committed govern Petitioners' liability, if any.

The court below thus notices *Erie* v. *Tompkins:*

> "The law to be applied is the law of *Maryland. Erie R. Co. v. Tompkins,* 304 U. S. 64, including the conflict of laws rule prevailing in the state. *Klaxon Co. v. Stentor Elec. Mfg. Co.,* 313 U. S. 487; that is to say, we should apply the law of Maryland or the laws of the states where the wrongdoing occurred just as a Maryland Court would do if the case were before it" (p. 67).

But the Court did not follow this rule.

It has been decided that in matters of unfair competition without registered trade-mark infringement, the laws of the states prevail.[23]

In the *Pechur* case noted below this court on certiorari requested counsel to direct their attention to the issue of the applicable state law. In the case at bar no effort was made by the Special Master to determine the local laws governing Petitioners' liability. The seven bottlers on sales to whom plaintiff was allowed Petitioners' profits were domiciled in Maryland, Pennsylvania, Massachusetts, Connecticut, and Rhode Island. At least as respects the law obtaining in the State of Pennsylvania, the lack of Petitioners' liability in the circumstances is made clear beyond possibility of dispute. In *Philadelphia Dairy Products Co.* v. *Quaker City*

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[23] *Pechur Lozenge Co.* v. *National Candy Co.,* 315 U. S. 666; *Addressograph-Multigraph Corp.* v. *American Bolt & Mfg. Co.,* 124 F. (2d) 706 (C. C. A. 8th, 1941), Cert. den., 316 U. S. 682; *National Fruit Co.* v. *Dwinell-Wright Co.,* 47 Fed. Sup. 499; *Time, Inc.,* v. *Viobin Corp.,* 128 Fed. 2d 860 (C. C. A., 7th, 1942); *1942 Columbia Law Review-Zlinhoff "Tompkins-Erie"* and the *Law of Trade-Mark Infringement & Unfair Competition,* p. 955.

Ice Cream Co., 306 Pa. 164, 159 Atl. 3, a manufacturer of ice cream sued another for an injunction. The court said:

> "These dealers permitted their customers to come into their places of business where plaintiff's ice cream was and had long been sold and extensively advertised, and served to these customers defendant's ice cream well knowing that they were imposing a fraud upon them. But these dealers are not defendants here, and the defendant is not legally responsible for their acts. The defendant can no more be restrained from selling its ice cream to these dealers because they palmed it off on their customers as plaintiff's product than could a manufacturer of oleomargarine be restrained from selling his product to a retail vendor of butter who was in the habit of palming off oleomargarine as butter. The sale of a lawful product to another cannot be enjoined because that other may make an improper or fraudulent use of it. If there was proof showing a conspiracy between the defendant and the dealers to perpetrate a fraud upon the public to the prejudice of both the public and the plaintiff, we would have a different situation, but here proof of such a conspiracy is not complete."

Whatever the law may be in other jurisdictions, certainly under that in Pennsylvania Petitioners were exempted from liability. Nevertheless, they were made to account for acts done in that State.

Although the amount involved here is relatively small, it is of serious import not only to Petitioners but to all others engaged in similar businesses. It does not require any of the spirit of prophecy to foresee the devastating use to which Respondent can and no doubt will, put this specious doctrine of "reasonable assurances."

Conclusion

It seems to Petitioners that the matters presented in this proceeding are of general public interest. The rules laid

down in the decisions of the Court below if generally applied would undoubtedly result in commercial chaos. May the manufacturer of an unpatented product be perpetually enjoined from its manufacture because in the past he has competed unfairly with another trader in the goods? Is the remote manufacturer of a raw ingredient of an innocent commodity liable for the dishonest acts of tricky retailers with whom he has no connection? Does guilt of competing unfairly forfeit civil liberty and constitutional guaranties of freedom, of property rights and of the equal protection of the laws?

Petitioners respectfully submit that certiorari ought to be granted as prayed.

W. Hamilton Whiteford.

FILE COPY

IN THE

Supreme Court of the United States

OCTOBER TERM, 1946

No. 560

DIXI-COLA LABORATORIES, INC., CONSTANTINE GRIVAKIS, WILLIAM H. HENNEN, ROY GOBRECHT and MARBERT PRODUCTS, INC.,

Petitioners,

vs.

THE COCA-COLA COMPANY, a Corporation,

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR CERTIORARI.

JOHN A. SIBLEY,
Counsel for Respondent.

HILARY W. GANS,
EDWIN CANADA,
JAMES M. SIBLEY,
Of Counsel.

The Daily Record Co., Baltimore 3, Md.

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RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR CERTIORARI.

To the Honorable the Chief Justice and
the Associate Justices of the Supreme Court
of the United States:

Petitioners base their petition for certiorari upon four grounds. (Petitioners' petition in brief, pages 8, 9). Respondent believes that the grounds relied upon by the petitioners are without merit, and in substantiation of that contention submits the following brief in opposition to petitioners' petition for writ of certiorari to this Court.

ARGUMENT.

The Decision Below Violates No Constitutional Rights Of Petitioners.

At page 8 of petitioners' brief the following is found:

> "The decision below violates petitioners' rights under the Fourteenth Amendment to the Constitution of the United States . . ."*

It is well established that where a party has had a hearing in court with the full right to appear and submit its case, the judgment of the court does not violate either the Fifth or Fourteenth Amendments of the Constitution of the United States, even though the judgment is erroneous. This Court has decided the precise point on numerous occasions.**

Petitioners do not claim that they have not had the privilege of appearing and arguing their case from 1940 to date. There can be no question that any limitation has been placed upon them in the court below insofar as the right to appear and contest this case is concerned. The requisites of due process of law have therefore been fulfilled so that there is no constitutional question involved in this case.

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* The Fourteenth Amendment restricts only the states, while the federal government is restricted by the Fifth Amendment. 16 C. J. S. Constitutional Law, §568 (b), *Nebbia* v. *New York*, 291 U. S. 502, 525; *Swank* v. *Patterson*, 139 Fed. (2) 145, 146.

** *Hagan* v. *Reclamation District No.* 108, 111 U. S. 701; *Holden* v. *Hardy*, 169 U. S. 366; *Endicott Johnson Corp.* v. *Encyclopedia Press*, 266 U. S. 285; *Dohany* v. *Rogers*, 281 U. S. 362.

There is no Conflict in the Decision below with Warner v. Lilly, 265 U. S. 526, nor with Coca-Cola Co. v. Gay-Ola Co., 211 Fed. 942, 200 Fed. 720, c. d. 229 U. S. 673, nor Turner & Seymour Mfg. Co. v. A. & J. Mfg. Co., 20 Fed. (2d) 298.

Respondent deals with petitioners' points two and three (petitioners' brief page 9) together. The argument of petitioners is based upon an erroneous inference, that is, the petitioners erroneously infer that the Court below reversed the finding of fact to the effect that the coloring matter in petitioners' drink is non-functional, and therefore rendered a decision in conflict with the decision of the court in *Warner* v. *Lilly*, supra, *Coca-Cola Co.* v. *Gay-Ola Co.*, supra, and *Turner & Seymour Mfg. Co.* v. *A. & J. Mfg. Co.*, supra. In the original hearing of the case, Judge Coleman in the District Court of Maryland made the following finding of fact which was based upon testimony and experiments in open court. The court found: (Findings of Fact Nos. 9 & 10) (OR 1549):

> "By means of caramel which is used for coloring purposes by both defendants and plaintiff and which has no real functional value defendants reproduce in their product the distinctive color of plaintiff's beverage. Defendants have also attempted to simulate the characteristic taste of plaintiff's beverage.
>
> "Plaintiff has used the same, or substantially the same, color for its product from the time that it first marketed it."

Based upon that finding of fact, the court concluded as a matter of law: (Finding of Fact No. 9) (OR 1552):

> "Plaintiff is entitled to have the defendants permanently enjoined from employing for their products the same color as that of Coca-Cola if defendants distribute, or permit their products to be distributed, or sold to the consumer other than in bottles."

These findings and conclusions were based upon the wide-spread fraud of petitioners. The District Court also found that petitioners had refilled respondents' jugs bearing petitioners trade-mark (Finding of Fact No. 12) (OR 1549) and that:

> ". . . defendants, through one or more of their representatives, induced and encouraged customers to sell and pass off defendants' product as and for the product of plaintiff on calls for 'Coca-Cola' and 'Coke' or 'Koke' (into which word plaintiff's trade-mark 'Coca-Cola' has been long and frequently abbreviated by the public), and defendant's product has been sold to such customers at a substantially cheaper price than that at which the product of the plaintiff is sold, with intent and as an inducement to have defendants' product passed off as and for plaintiff's product, and, as a result, said product of defendants has been so passed off extensively." (Finding of Fact No. 11) (OR 1549).

When petitioners appealed the case to the Fourth Circuit Court of Appeals, that court agreed with the finding of fact by the District Court to the effect that petitioners were guilty of fraudulent conduct.

The court stated that:

> "Fraudulent conduct on the part of the Dixi-Cola Laboratories, Inc., a Maryland corporation, and certain individuals resident in Maryland and trading as Marbert's Inc. and Apola Extract and Syrup Corporation, has been established." (OR 2159).

The court also stated:

> "The defendants are also enjoined from the performance of various acts designed to promote the passing off of their product as that of the plaintiff, and are specifically prohibited from giving to their merchandise, not sold to consumers in bottles, a color resembling the well known dark brown color of the Coca-Cola

beverage, when defendants know, or in the exercise of reasonable care should know, that the purchaser does not intend to dispense the goods to customers in bottles, or intends to use bottles with some deceiving element, enabling the goods to be passed off as the plaintiff's product." (OR 2160).

"We are, however, in accord with the conclusion of the District Court that the conduct of the defendants has been such as to justify a decree restricting their business activities in the future along certain lines. The evidence amply justifies the finding that distributors of their products in New England, New York and St. Louis, and to a less extent in Baltimore, have attempted to sell and have sold their syrup to customers, engaged in the fountain trade with the understanding that the drink made therefrom should be sold as and for Coca-Cola. The officers of the defendant corporation had knowledge of these activites and participated therein. The sale of syrup to the fountain trade constituted about ten per cent of the total business of the defendant.

"The evidence also justifies the finding that the bottled beverage made by bottlers from defendant's concentrate was passed off as Coca-Cola in various bars and taverns. It is difficult to ascertain how widespread this practice has been, but there is some evidence that an officer of the corporation encouraged the practice. The defendants were also fully aware of the use of the infringing word 'Lola Kola' by bottlers, and indeed agreed to place this word on all packages of its concentrate sold to Lola Bottlers, Inc. Under these circumstances, it is a reasonable conclusion that the defendants have conspired with their customers to palm off their goods for those of the Coca-Cola Company whenever it was safe to do so." (OR 2174).

"The defendants are also enjoined '(f) From giving to any part of their merchandise not sold by defendants, their agents or distributors, in bottles to consumers, a color imitating or resembling the color of

plaintiff's products, if or when defendants know, or in the exercise of reasonable case should know, that the purchaser thereof intends to dispense such merchandise to the consumer other than in bottles, or intends to bottle the beverage made from such product and to use on the bottles, labels or caps some extrinsic, deceiving element that in conjunction with the color imitating plaintiff's color enables such purchaser to pass off his, her or their product for plaintiff's product.'

"This portion of the decree is justified by the facts. It is true as stated in *Coca-Cola Co.* v. *Koke*, 254 U. S. 143, 147, that 'the product, including the coloring matter, is free to all who can make it if no intrinsic deceiving element is present.' See, also *Coca-Cola Co.* v. *Williamburgh Stopper Co.*, S. D. N. Y., 2 T. M. R. 234; *Coca-Cola Co.* v. *HyPo Co.*, E. D. N. Y., 1 F. Supp. 644. But it has also been held that the copying of the color of the drink may be enjoined when the act is a part of a scheme of unfair competition. *Coca-Cola Co.* v. *Gay-Ola Co.*, 6 Cir., 200 F. 720; *Coca-Cola Co.* v. *HyPo Co.*, supra." (OR 2174-2175).

Both the District Court and the Circuit Court of Appeals when faced with the wide-spread fraud of the petitioners granted a color injunction in order to vindicate the right of the respondent and to prevent future fraudulent conduct of the petitioners. It is well-established that a Court of Equity will enjoin acts, permissable in themselves, when such acts are used as a part of a scheme for defrauding another.*

Petitioners' contention concerning the conflict between the decision below and the decision in *Coca-Cola* v. *Gay-Ola*

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* *Warner* v. *Lilly*, 265 U. S. 526; *Enock Morgan's Sons Co.* v. *Ward*, 152 Fed. 690; *Coca-Cola Company* v. *Gay-Ola Company*, 200 Fed. 720; Approved in *Warner* v. *Lilly*, supra; *Broderick & Bascom Rope Co.* v. *Manoff*, 41 Fed. (2) 353; *Champion Spark Plug Co.* v. *Champion*, 23 F. Supp. 638.

Co. must fail. Likewise, there is no conflict between the decision in the *Turner & Seymour Mfg. Co.* v. *A. & J. Mfg. Co.*, 20 Fed. (2d) 298. In that case the court approved the *Gay-Ola* case and stated:

> "But color which is non-functional and distinctive in a drink, as in *Coca-Cola Co.* v. *Gay-Ola Co.* (C. C. A.) 200 F. 720, or whisky, as in *Walker* v. *Grubman* (D. C.) 222 F. 478, may not be copied in violation of an established mark, and has been held to be in fraudulent competition."

There is no conflict with *Warner* v. *Lilly* for this Court approved the decision in the *Gay-Ola* case as follows:

> "It does not merely serve the incidental use of identifying the respondent's preparation, *Coca-Cola Co.* v. *Gay-Ola Co.*, supra, p. 724, and it is doubtful whether it should be called a non-essential."

The Court below correctly applied the Ruling of Erie R. Co. v. Tompkins, 304 U. S. 64.

Petitioners in effect contend that the Court of Appeals erred in following the line of cases which hold that the court of the forum should apply the law of the place of wrong in tort actions. Respondent submits that the position adopted by the defendants on this point can not be sustained. The Court of Appeals below followed the doctrine of *Erie R. Co.* v. *Tompkins* and stated (NR 439):

> "The defendants, without expressing an opinion on the subject, offer the speculation as to whether the law of Maryland or the law of the several states in which the acts of unfair competition took place should govern the court in deciding the liability of the defendants and the measure of damages in each instance. The case before us in its present aspect is one of unfair competition and jurisdiction rests on diversity of citizenship. The law to be applied is the law of Maryland, *Erie R. Co.* v. *Tompkins*, 304 U. S. 64, 58 S. Ct. 817, 72 L. Ed. 1188, 114 A. LR. 1498 including the con-

flict of law rule prevailing in the state. *Klaxon Co.* v. *Stentor Elec. Mfg. Co.*, 313 U. S. 487, 61 S. Ct. 1020, 85 L. Ed. 1477; that is to say, we should apply the law of Maryland or the laws of the states where the wrong-doing occurred just as a Maryland court would do if the case were before it."

The court below further stated (NR 439):

"We have found no Maryland case expressly stating the Maryland Law on this point."

Petitioners do not now cite a case which sustains their contention that a Maryland Court would apply the laws of the various states to an accounting in Maryland, and in the absence of a specific ruling by the Maryland Court, the federal court is free to apply the general law.*

Petitioners principal reliance is upon a second case, *Philadelphia Dairy Products* v. *Quaker City Ice Cream Co.*, 306 Pa. 164 (defendants' brief, pages 14, 30, 31). This case is entirely without relevance to the case at bar for that court recognized the ruling adopted by the Court below. The Pennsylvania court stated:

"If there was proof showing a conspiracy between the defendant and the dealers to perpetrate a fraud upon the public to the prejudice of both the public and the plaintiff, we would have a different situation, but here proof of such a conspiracy is not complete."

In the case at bar, both the District Court and the Court of Appeals found proof of a conspiracy between the officers of petitioners and their dealers. (OR 1549; OR 2174).**

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* *Kellogg* v. *Shredded Wheat Company*, 305 U. S. 111-113 and *Socony-Vacuum Oil Co.* v. *Rosen*, 108 Fed. (2) 632, 635.

** See also *Wilson E. Schmick* v. *West Reading Broom Works*, et al. 79 Pa. St. 331, 338; *Berkley Company* v. *Berks*, 67 U. S. P. Q. 314, 318; *Pennsylvania Central Brewing Co.* v. *Anthracite Beer Co.*, 101 Atl. 925 (Pa.).

WHEREFORE, respondent respectfully requests that petitioners' petition for certiorari be denied.

Respectfully submitted,

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SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1946

No. 561

THE COCA-COLA COMPANY,
Petitioner,

vs.

DIXI-COLA LABORATORIES, INC., ROBERT W. KRUSE, CONSTANTINE GRIVAKIS, WILLIAM H. HENNEN, ROY GOBRECHT, MARTIN FOX, JACK J. STREGER AND ALFRED O'NEIL, MARBERT PRODUCTS, INC., AND APOLA EXTRACT AND SYRUP CORPORATION.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE FOURTH CIRCUIT.

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Defendants-Respondents

PETITION FOR A WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE FOURTH CIRCUIT.

To the Honorable the Chief Justice and the Associate Justices of the Supreme Court of the United States:

Petitioner, The Coca-Cola Company, plaintiff in the District Court, appellee below, respectfully prays that a writ of certiorari issue to the United States Circuit Court of Appeals for the Fourth Circuit to review judgments of that

Court entered on January 11, 1941,[1] (OR.[2] 2159, reported 117 Fed. (2d) 352), and on February 4, 1946 (NR.[3] 444, reported 155 Fed. (2d) 59), modifying an interlocutory decree of the United States District Court for the District of Maryland in favor of petitioner (31 Fed. Supp. 835, OR. 1532).

Jurisdiction

The jurisdiction of this Court to grant the writ of certiorari to review the decision and judgment is given by the following statutes:

1. This suit was instituted under U. S. Code, Title 15, Sections 96, 97 and 99, and under U. S. Code, Title 28, Section 41, Subdivision 1.

2. U. S. Code, Title 15, Section 98, provides for granting writs of certiorari by this Court for the review of suits instituted under U. S. Code, Title 15, Section 97, in the same manner as is provided by U. S. Code, Title 28, Section 347; and U. S. Code, Title 28, Section 347, provides for granting of writs of certiorari by this Court for reviewing of suits instituted under U. S. Code, Title 28, Section 41, Subdivision 1.

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[1] Certiorari to interlocutory decree denied, 314 U. S. 629.

[2] Refers to page number in the record previously filed in this Court by The Coca-Cola Company in No. 1039, October Term, 1940, later No. 87, October Term, 1941 (314 U. S. 629), following the interlocutory decree in furtherance of its petition for writ of certiorari to the Circuit Court of Appeals, following the decree of that Court in No. 4672 (117 Fed. (2d) 352).

[3] Refers to page number in the new record filed in this Court following accounting and final decree of the District Court upon cross-petition of *The Coca-Cola Company* v. *Dixi-Cola Laboratories, Inc.*, for petition of writ of certiorari to review the decision of the Circuit Court of Appeals, No. 5431 (155 Fed. (2d) 59).

Time for making application for certiorari extended until October 2, 1946, by Chief Justice Vinson (NR. 464).

Summary and Short Statement of the Matter Involved

Petitioner, a Delaware corporation, has sold its beverage and syrup under the trade-mark "Coca-Cola" since 1886. "Coca-Cola" was registered as a trade-mark under the Act of 1881 [4] and under the Act of February 20, 1905,[5] as amended.

Defendants merchandised a single product under various names, including "Apola Cola", "Dixi-Cola", "Lola Kola", "Marbert Cola", and "Kola", with the knowledge that applications to register "Dixi-Cola" and "Apola Cola" were denied by the Patent Office (OR. 437; 840). The use of these names was accompanied by other unfair acts, such as the simulation of the colors red and white (OR. 1047), long associated with petitioner, and the active efforts on the part of defendants' officers to induce their dealers to pass off defendants' product for plaintiff's product (OR. 141-170).

The District Court held that the validity of the trade-mark "Coca-Cola" is no longer open to question and that the registrations thereof are valid (OR. 1534; 1550).

The court below concurred in this conclusion of the District Court and said: "Plaintiff is the owner of the trade-mark 'Coca-Cola' . . . (OR. 2159). It is certainly beyond dispute that the word 'Coca-Cola' is the exclusive property of The Coca-Cola Company (OR. 2162), and that the name 'Coca-Cola' identifies the goods of the plaintiff (OR. 2168). The evidence in the pending case shows that what was said of the name in Coca-Cola Co. *v.* Koke Co., 254 U. S. 143, and Coca-Cola Co. *v.* Old Dominion Beverage Corp., supra, (271 Fed. 600) is equally true today," (OR.

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[4] Act of March 3, 1881, C. 138, 21 Stat. 502.

[5] Act of February 20, 1905, C. 592, Secs. 1-20, 33 Stat. 724-731, U. S. C. Title 15, Secs. 81-109.

2162) and that the plaintiff was entitled to the issuance of an injunction against the defendants "from committing any acts calculated to cause any product other than the plaintiff's to be known and sold as 'Coca-Cola', or 'Koke', or any colorable imitation thereof" (OR. 2174).

In *The Coca-Cola Co.* v. *Koke, supra,* this Court said:

> "It appears that after the plaintiff's predecessors in title had used the mark for some years it was registered under the Act of Congress of March 3, 1881, c. 138, 21 Stat. 502, and again under the Act of February 20, 1905, c. 592, 33 Stat. 724" (p. 145).
>
> "Whatever may have been its original weakness, the mark for years has acquired a secondary significance and has indicated the plaintiff's product alone" (p. 145).
>
> "The name now characterizes a beverage to be had at almost any soda fountain. It means a single thing coming from a single source, and well known to the community. It hardly would be too much to say that the drink characterizes the name as much as the name the drink. In other words Coca-Cola probably means to most persons the plaintiff's familiar product to be had everywhere rather than a compound of particular substances" (p. 146).

The District Court found the fact to be that the use of the names "Dixi-Cola", "Apola-Cola", "Marbert Cola", "Lola Kola", and "Kola" was calculated and intended to deceive, and did and does actually deceive members of the public into the belief that defendants' said drink is merchandise emanating from the plaintiff" (OR. 1548; Finding of Fact No. 6).

The District Court also found that these acts of the defendants were committed "with the deliberate intent and purpose of appropriating plaintiff's good will and causing defendants' product to be sold by the trade, and accepted

by the consuming public, as and for plaintiff's product, . . . " (OR. 1550).

The court below did not disturb these findings, but itself found that "the evidence also justifies the finding that the bottled beverage made by bottlers from defendants' concentrate was passed off as Coca-Cola at various bars and taverns" (OR. 2174), and that there is some evidence that "an officer of the corporation encouraged the practice" (OR. 2174), and that ". . . the defendants had conspired with their customers to palm off their goods for those of The Coca-Cola Company whenever it was safe to do so." (OR. 2174)

The District Court enjoined the defendants' illegal acts, including the use of the names "Dixi-Cola", "Marbert Cola", "Lola Kola", "Apola Cola", and "Kola". The injunctive relief followed the finding of fact by the District Court that "the use of said names was calculated and intended to deceive, and did and does actually deceive, members of the public into the belief that Defendants' said drink is merchandise emanating from the Plaintiff." (OR. 1548; Finding of Fact No. 6).

Although the Circuit Court of Appeals affirmed the findings of the District Court that it was the intention of the defendants to cause their goods to be passed off for the goods of the plaintiff, and that they conspired with their customers so to do, the court below modified the injunction by eliminating from the operation thereof the words "Marbert Cola" and "Dixi-Cola," and "Kola" (OR. 2175).

The effect of this modification was to nullify the finding of fact upon which the District Court granted injunctive relief, although there was ample evidence to support that finding, and to disregard Subsection (a) of Rule 52 of the Federal Rules of Civil Procedure (28 U. S. C. A., Sec. 723 (c)).

The court below rested its decision upon the question whether the trade-mark "Coca-Cola" was fanciful in its origin or whether it derived its trade-mark significance through acquiring a secondary meaning.

Such a distinction is in conflict with the decisions of this Court, and pins the decision of the court below upon an erroneous conception of the law.

The Questions Presented

(1) Whether the Circuit Court of Appeals is at liberty, under Rule 52 (a) of the Federal Rules of Civil Procedure, to set aside the judgment of the lower court where such judgment is based upon a finding of fact that is supported by ample and substantial evidence.

The decision of the Court is in conflict with the decisions of other circuits wherein it is held that upon review in an equity case the Circuit Court of Appeals is without power to deal with the evidence *de novo,* and is, upon issues of fact, limited to a consideration of the question as to whether the District Court's judgment is supported by substantial evidence. On this question there is a conflict in the circuits.

Webb v. *Frisch* (CCA 7), 111 Fed. (2d) 887, 888, and *Adventures in Good Eating, Inc.,* v. *Best Places to Eat, Inc.,* (CCA 7), 131 Fed. (2d) 809, 814, hold that an appellate court may not review the facts found by the lower court *de novo* on appeal, but must accept the findings of the lower court if supported by substantial evidence.

(2) Whether the trade-mark registered under the Trade-Mark Act of 1905, as amended, is a technical trade-mark and is entitled to full protection against its use or the use of colorable imitations, and whether the Court may, as a matter of law, refuse to grant full relief merely because

such mark is not fanciful and did not originate out of a fancy name.

Reasons for Granting the Writ

(1) The court below so far departed from the accepted and usual course of judicial procedure as to call for the exercise of this Court's power of supervision, in that it failed to follow Rule 52 (a) of the Federal Rules of Civil Procedure by, in effect, nullifying findings of fact of the District Court which are highly material and not clearly erroneous.

(2) The decision of the court below is in conflict with *Davids* v. *Davids,* 233 U. S. 461, and *Armstrong* v. *Nu-Enamel,* 305 U. S. 315, wherein this Court held that a trade-mark registered under the Act of 1905 is a valid technical trade-mark and as such is entitled to full protection. The decision in this case is in conflict with the decisions of other Circuit Court of Appeal. It is specifically in conflict with the following cases: *Platen* v. *Gedney* (CCA 2), 224 Fed. 382; *Warner Bros. Co.* v. *Wiener* (CCA 2), 218 Fed. 635; *Henderson* v. *Peter Henderson & Co.* (CCA 7), 9 Fed. (2d) 787.

Conclusion

It is believed that the importance of the review by this Court of the decision of the Circuit Court of Appeals cannot be over-estimated, inasmuch as the courts, the bar, and the owners of trade-marks will be in a state of confusion as to the law of trade-mark infringement and unfair competition, and the public will be constantly deceived by colorable imitations of well established trade-marks unless and until the law with respect to trade-marks and unfair competition is again restored to a settled state by this Court.

Wherefore, your petitioner prays that a writ of certiorari be issued out of and under the seal of this Court, directed

to the United States Circuit Court of Appeals for the Fourth Circuit, commanding the said Court to certify and send to this Court, on a day to be designated, a full transcript of the record and all proceedings of said Circuit Court of Appeals in the case numbered and entitled on its docket number 4672, *Dixi-Cola Laboratories, Inc.; Robert W. Kruse, Constantine Grivakis, William H. Hennen, Roy Gobrecht, Martin Fox, Jack J. Streger and Alfred O'Neil, Marbert Products, Inc., and Apola Extract and Syrup Corporation, Defendants-Appellants*, v. *The Coca-Cola Company, Plaintiff-Appellee,* to the end that this case may be reviewed and determined by this Court; that the judgment of the said Circuit Court of Appeals for the Fourth Circuit be reversed insofar as it modified the judgment of the District Court upon interlocutory decree; and that petitioner be granted such other and further relief as to this Honorable Court may seem meet and proper.

And your petitioner will ever pray.

THE COCA-COLA COMPANY,
By JOHN A. SIBLEY.

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